CONSOLIDATED HCI HOLDINGS CORPORATION

ANNUAL REPORT • 2002

Revenue for the year ended September 30, 2002 decreased to $72,226,000 from the previous year's $135,977,000. The decrease was primarily the result of the company bringing less land to market in 2002, most of its development land having been sold in prior years. Rental revenues increased over those of 2001 with the addition of a new building to the income-producing property portfolio and scheduled increases in leases. Housing revenue decreased, the result of bringing fewer units to market as projects were completed and fewer new projects were started. However, as a result of a strong housing market, housing profits increased over those recorded in 2001.

The company recorded net earnings of $16,536,000 or $0.77 per share compared to the previous year's earnings of $15,774,000 or $0.74 per share.

The demand for industrial space in our business park weakened during the year, with the vacancy rate reaching a peak of 8.9% at the end of the second quarter, and falling to 7.7% by year-end.

The company continues to have satisfactory relations with its banker. Subsequent to the year-end, under renewed banking arrangements, the bank released the company from its obligations under a $150,000,000 demand debenture which had provided fixed charges against the company's properties.

The company has sold serviced lots in its Mississauga and Markham subdivisions, condo sites in its Mississauga subdivisions, serviced industrial land in its Woodbridge business park and unserviced residential land in Kleinberg. These sales are expected to close in 2003, with the company's share of the gross revenue expected to be approximately $20,500,000. With these sales, the company's has little remaining development land inventory.

During the year, using its own cash resources, the company repaid the outstanding balance of $39,400,000 on its debenture, thereby considerably reducing ongoing interest charges.

Management and the board are pleased with the company's considerable success in paying down debt and strengthening its cash position and balance sheet. The company is actively seeking new land development opportunities.

Stanley Goldfarb
President

MANAGEMENT'S DISCUSSION AND ANALYSIS

These management comments on the financial condition of the company and results of operations for the two years ended September 30, 2002 are the views of management and should be read in conjunction with the consolidated financial statements including related notes in this 2002 Annual Report.

The company's activities in the real estate industry are conducted through wholly-owned subsidiaries as well as in concert with others at varying participation rates through partnerships, joint ventures, co-tenancies and limited company ventures. The financial statements include these ventures on a proportionate consolidation basis. The activities of the company include the development of raw land by obtaining all necessary regulatory approvals and installing service infrastructures. These lands are then either sold to builders or other interested parties or retained by the company for the construction of industrial, commercial or office facilities which are then leased out. The company also conducts activities through various ventures in the building and selling of new homes on land purchased from others as well as from the company.

RISKS

Financial Risks

Although the company is subject to interest rate fluctuations, historically low and stable rates, together with the repayment of the demand debenture, referred to under "Financial Condition – Liabilities", and all non-project-specific bank debt has lessened the company's risk associated with such fluctuations. Further, the company is continuing to follow its policy of replacing bridge financing with fixed-term debt on its income-producing properties when it is available. During 2002, the company completed the $6.6 million financing of an income-producing property completed in 2001 and the $3.0 million financing of an income-producing property completed during 2002 at rates per annum of 7.27% and 7.76%, respectively. Interest rate savings averaging approximately three percentage points were achieved on the replacement of $9.9 million of fixed-term debt, which matured in 2002. The company expects to renew $4.5 million of fixed-term debt in 2003 at a rate of approximately 6.0%.

Subsequent to the year-end the company negotiated its arrangement with its banker for letter of credit facilities, as explained in note 9 to the consolidated financial statements. Under the new arrangement, the bank no longer requires the $150 million demand debenture, which provided fixed charges against the company's properties.

Operational Risks

Any instability in the real estate sector in the Greater Toronto Area could cause the time frame to collect any amounts due from sales to be extended. Any reduction in the level of activity in the housing sector will also affect our house building joint ventures as they could be faced with losses on inventory. At the present time, management is satisfied that the company's receivables will be collected in full and that land and housing inventories are valued at the lower of cost and net realizable value.

RESULTS OF OPERATIONS

Net Results and Taxes

For the year ended September 30, 2002, the company recorded earnings before taxes of $23.9 million compared to earnings recorded for the previous year of $24.9 million. In 2002, the company recorded a provision for income taxes of $7.3 million compared to a provision of $9.1 million in 2001. After taxes, the company reported net earnings of $16.5 million or $0.77 per share. In the previous year, the company reported net earnings of $15.8 million or $0.74 per share. The number of shares outstanding for both 2002 and 2001 was 21,368,442 with no outstanding dilutive items in either year.

Revenue

Total revenue for 2002 decreased to $72.2 million from the $136.0 million recorded in the previous year. This decrease resulted from a decrease in land sales and housing sales, partially offset by an increase in rental and interest income. As mentioned in previous years, the nature of development does not allow for a consistent year to year volume of sales. The revenue is comprised of sales in specific projects as the marketplace dictates and buyers become available. During 2002, the company recorded the sale of 234 units in various subdivisions and infill sites (our share was 177 units), a 14-acre serviced school site in the company's Arrowsmith subdivision in Mississauga and 16 acres of serviced industrial land in the Woodbridge Pine Valley Business Park, 13 of which constituted the remaining land in the Autopark section of the Park. In the previous year, the main components of revenue were the sale of 1,106 units in various subdivisions and infill sites (our share was 926 units), a 7-acre serviced school site in the company's Arrowsmith subdivision in Mississauga and 4 acres of serviced industrial land in the Autopark section of the Woodbridge Pine Valley Business Park. Typically, sales of land under agreements of purchase and sale allow the purchaser an interest-free period of between 6 and 24 months. Accordingly, revenue from sale of land is recorded at a discounted value to account for the interest-free period.

The portion of revenue recorded as real estate land sales was $27.8 million for 2002 compared to $91.3 million for 2001. The revenue from housing sales as recorded by our joint ventures decreased to $19.6 million for 2002 from the previous year's $22.5 million. The decrease in revenue is attributable to the decrease in the number of units available for sale as projects were completed and fewer new projects were started.

The rental revenue for 2002 was $18.4 million compared to the previous year of $17.1 million. The rental revenue increase in 2002 resulted from increased rental rates and the impact of new income-producing properties, one which came on-stream at the start of the fourth quarter of 2001 and the other at the end of the first quarter of 2002.

Interest and other income includes interest on receivables from land sales in the amount of $4.9 million in 2002 and $2.1 million in 2001. The large increase year over year is primarily the result of interest earned on receivables under agreements of purchase and sale which closed in the last quarter of 2001 and the first quarter of 2002.

In 2001, the company recorded income of $1.3 million resulting from the recovery of a secured receivable provided for in a prior year. One-half of the recovery was received in 2001 and the balance, bearing interest at one percent above prime, was received in 2002.

Expenses

Real estate cost of sales for land and the rate of profit on housing sales are functions of the projects sold. The land cost of sales for 2002 was 47% of net sales revenue compared to 77% in 2001 and 40% in 2000. The land cost to land sales decrease year over year is largely the result of adjustments in 2002 of cost of sales recorded in prior years, amounting to $3.9 million. These adjustments to cost of sales are largely attributable to savings achieved over projected costs through contract negotiations and certain budgeted government levies ultimately not being required. In addition, the decrease of the overall land costs in relation to selling prices in 2002 is attributable to there being a much higher proportionate component in 2002 land sales of non-residential sales, compared to 2001. These sales had a much lower cost component than sales of residential lots to builders in the current year. A cost of sales adjustment in the amount of $1.1 million was recorded in 2001 primarily due to the reduction of the financing component due to a more rapid retirement of debt than originally expected.

The rate of profit on housing sales increased to 8.0% in 2002 from 1.9% in 2001. In 2000 the rate was 3.1%. The 2002 increase over 2001 was primarily the result of higher selling prices fuelled by increased consumer demand for new housing.

Rental operating expenses in 2002 have increased over 2001 by 6.6%, reflective of some moderate property tax changes, additional costs related to an income-producing property being added in each of the third quarter of 2001 and the first quarter of 2002 and increased maintenance activity as buildings age. Financing costs in 2002 decreased by 28.0% from the costs in 2001 due to reduced interest expense resulting from the repayment of the demand debenture in the third quarter, the renewal of long-term debt at lower interest rates and a lower average bank prime interest rate during the year. General and administrative costs in 2002 increased by 11.2% from 2001 primarily due to an adjustment of the previous year's capital tax expense net of a decrease in payroll costs and head office overheads.

Amortization expense showed a small increase in 2002 due to there being a full year's amortization on the income-producing property completed in the third quarter of 2001, commencing amortization of a second income-producing property at the beginning of the second quarter of 2002 and the normal annual increase in building amortization under the sinking fund method.

The provision for income taxes of $7.3 million (2001-$9.1 million) comprises $9.2 million (2001-$10.5 million), computed by applying the average statutory Canadian federal and provincial income tax rates to earnings before income taxes, and $0.2 million of large corporation tax (2001-$0.4 million), reduced by $0.6 million (2001-$1.8 million) being the benefit resulting from the reduction in the substantively-enacted income tax rates during the year, $1.1 million (2001-nil) resulting from an adjustment to tax reserves and provisions arising from finalization of certain tax issues and $0.4 million (2001-nil) of other items.

CASH FLOW FROM OPERATING ACTIVITIES

Cash flow from operating activities decreased during 2002 compared to 2001 due to expenditures required to complete housing and land development projects sold, the paydown of accounts payable and the repayment of the accrued interest referred to under "Financial Condition – Liabilities". The decrease was lessened somewhat by the increase in repayments of receivables under agreements of purchase and sale on land sold in prior years.

FINANCIAL CONDITION

Assets

Income-producing properties increased in 2002 by $2.3 million resulting from the addition of a 22 thousand square foot automobile dealership, net of annual amortization. The 2001 increase of $6.1 million was due to the completion of a new $6.8 million, 147 thousand square foot building added to the industrial rental portfolio net of the disposal of the company's share of a joint venture commercial property and annual amortization.

At September 30, 2002, the company's portfolio of wholly-owned income-producing properties comprises 1.8 million square feet of industrial space, office space of 43 thousand square feet and commercial space of 113 thousand square feet. The increase in commercial space over that of 2001 is the result of the new building referred to above. The overall vacancy rate at September 30, 2002 stood at 7.2%, up from 2.6% at September 30, 2001. Industrial vacancies were 7.7%, up from 2.4%, commercial 4.8%, down from 11.4%, and there were no office vacancies in either year.

The property under development at September 30, 2001 represents the carrying value of land and construction costs to that date of the 22 thousand square foot automobile dealership referred to above. The building was completed, transferred to income-producing properties and leased in the first quarter of 2002.

Land inventory is segregated on the balance sheets as land held for future development, which consists primarily of raw land, and land and housing under development, which represents land that is being or has been serviced or developed and the inventory of housing under construction of our joint ventures. The company's inventory of land, excluding the housing under construction, decreased by $13.2 million in 2002. This decrease was primarily the result of cost of sales exceeding expenditures on land inventory to bring land to market. The major components of cost of sales relate to industrial land sold in Woodbridge and residential lots in Mississauga and Kleinberg. Expenditures on land relate largely to the properties sold. The level of the company's inventory of housing under construction declined by $2.7 million from 2001 to 2002. This decline, due to there being more projects reaching their final stages than new projects starting, is net of $4.0 million of new land purchases in two existing projects.

Cash includes cash and cash equivalents, comprising unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition and restricted cash, comprising cash and term deposits required to secure outstanding guarantees and letters of credit and amounts required to fund costs to complete projects sold.

Amounts receivable decreased by $24.2 million in 2002 compared to an increase of $45.1 million in 2001. Receivables at September 30, 2002 include $6.4 million as a result of sales agreements recorded during the year.

Liabilities

The company's bank advances, which increased by $0.4 million during 2002, consist of its share of project loans in its housebuilding joint ventures. The 2001 decrease of $7.2 million was the result of the company's repaying all of its bank debt save its share of the housebuilding project loans, using cash generated from operations.

At September 30, 2001, the company was indebted in the amount of $37.9 million under a demand debenture issued in a previous year. The debenture was owed to a company controlled by a director, as trustee for a lending syndicate, which included certain shareholders of the company. The debenture holder agreed to a reduction of 2% in the interest rate charged under the debenture to prime plus 2% effective October 1, 2001. On June 14, 2002, the company achieved a full and final settlement of, and release from all obligations under the debenture. This was accomplished with the payment in the amount of $39.4 million from the company's own cash resources. This payment included the original principal amount of $17.3 million plus $22.1 million of accrued interest which had been capitalized to the loan amount since 1993.

Overall, loans payable decreased by $34.0 million in 2002 primarily as a result of the repayments of the $39.4 million debenture payment referred to above, $1.9 million of loans payable on land purchased by the company's housebuilding joint ventures, a $0.7 million mortgage loan from a joint venturer on land purchased from the joint venture and $2.2 million of scheduled mortgage payments. These decreases were offset by interest of $1.5 million capitalized on the debenture and two new mortgage loans on income-producing properties totalling $9.1 million.

The 2001 decrease in loans payable of $4.3 million resulted from repayments of the $2.8 million balance of a loan from a joint venturer, $3.2 million of loans payable on land purchased by the company's housebuilding joint ventures, a $0.8 million mortgage loan on an income-producing property and $2.0 million of scheduled payments on mortgage loans. These decreases were offset by interest of $3.8 million capitalized on the debenture and a mortgage loan of $0.7 million from a joint venturer on land purchased from the joint venture.

Accounts payable and accrued liabilities decreased in 2002 by $22.4 million with $19.3 million of the decrease attributable to the decrease in estimated cost to complete projects sold. In 2001, there was an increase in these liabilities of $29.8 million with $26.1 million of the increase attributable to the increase in the estimated cost to complete projects sold. These payables are directly affected by the stage of the company's development activities outstanding at year-end and related sales. Deposits on sales decreased in 2002 by $1.3 million and represent deposits received for sales that are expected to take place in 2003.

Change in Accounting for Income Taxes

In 2001, the company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The basis and effect of this change is outlined in note 2 to the consolidated financial statements.

QUARTERLY INFORMATION

(In thousands of dollars, except per share amounts)

The following is a summary of quarterly revenue and earnings results for 2002 and 2001:

	Dec 00	Mar 01	Jun 01	Sep 01	Dec 01	Mar 02	Jun 02	Sep 02
Total revenue	$27,994	$12,896	$13,507	$81,580	$28,904	$15,013	$14,697	$13,612
Net earnings	$ 2,975	$ 1,527	$ 1,133	$10,139	$ 4,109	$ 2,215	$ 2,523	$ 7,689
Net earnings per share	$ 0.14	$ 0.07	$ 0.05	$ 0.48	$ 0.19	$ 0.10	$ 0.12	$ 0.36

INSIDER BID

On October 5, 2001, an insider group holding approximately 66.0% of the issued and outstanding shares of the company announced its intention to make a cash offer of $3.00 per share for all of the Class A and Class B shares of the company not already owned by the insider group. A Special Committee of the Board supervised the preparation of a valuation of the company, reviewed the offer and advised the Board not to recommend the offer to the minority shareholders. As a result, the Board recommended that the shareholders reject the offer. The insider group took up all shares tendered under the offer, increasing its holdings to approximately 74.5% of the total number of shares outstanding. The offer expired on April 29, 2002.

OUTLOOK

In 2003, the company anticipates bringing to market its share of the sale of 34 units in the Mississauga and Markham subdivisions. These closings, the company's share of which are 19 units, are expected to generate proceeds of approximately $2.3 million. The company also expects to close land sales comprising 4 condo sites totalling 31 acres in its Mississauga subdivisions, 2 sites totalling 5 acres in the Woodbridge Pine Valley Business Park and a 33-acre site in Kleinberg. These closings are expected to generate proceeds of approximately $18.2 million. The timing of the recognition of these sales will depend on the company satisfying all material conditions of the sales agreements and the receipt of sufficient deposits. The ultimate collection of the proceeds from sales of residential lands will depend on the housebuilder closing with the ultimate homebuyer. The company expects to fund the servicing costs of these projects from its own cash resources.

The company also anticipates that net rental revenues will continue to increase as vacant space is leased and rental increases are achieved through scheduled increases in leases and on lease renewals. However, management is of the opinion that the rate of rental revenue improvement will decline as no new buildings are scheduled for construction and rentals and renewals of the past two years have brought the average lease rate over all its income-producing properties closer to current market rates.

The company's residential land inventory has been substantially depleted. During 2002, no new development opportunities have presented themselves and no significant land purchases were made. Without further land purchases, it will not be possible for the company to maintain the level of revenues and earnings it achieved in 2002 and 2001.

FORWARD-LOOKING STATEMENTS

In various places in Management's Discussion and Analysis there are forward-looking statements reflecting management's current expectations regarding future economic conditions, results of operations, financial performance and other matters affecting the company. Forward-looking statements include information regarding possible or assumed future results or transactions as well as statements preceded by, followed by, or that include the words "believes", "expects", "anticipates", "estimates", "intends" or similar expressions. Important factors, in addition to those discussed in this document, could affect the future results of the company and could cause those results to differ materially from those expressed in any forward-looking statements.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF CONSOLIDATED HCI HOLDINGS CORPORATION

We have audited the consolidated balance sheets of Consolidated HCI Holdings Corporation as at September 30, 2002 and 2001 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Toronto, Canada
December 16, 2002, except as to note 9 which is as of January 15, 2003

MANAGEMENT RESPONSIBILITIES

The consolidated financial statements of Consolidated HCI Holdings Corporation have been prepared by management of the company in accordance with Canadian generally accepted accounting principles.

Management maintains appropriate controls to provide reasonable assurance that the assets of the company, its subsidiaries and joint ventures are safeguarded and that financial information is reliable and accurate. Where necessary, management uses judgement to make estimates based on informed knowledge of the facts.

The Board of Directors bears ultimate responsibility for the financial statements. An audit committee composed of independent directors has reviewed in detail these statements with management and also with the external auditors appointed by the shareholders. The audit committee has recommended their approval to the board. The Board of Directors has approved these consolidated financial statements.

All other financial and operating data included in the annual report are consistent with information contained in the consolidated financial statements and have been reviewed by the Board of Directors.

Stanley Goldfarb
President and Treasurer

September 30 (in thousands of dollars)	2002	2001
ASSETS		
Income-producing properties (note 3)	$ 79,593	$ 77,210
Property under development (note 4)	—	1,265
Land and housing under development (note 5)	29,685	45,395
Land held for future development (note 6)	2,703	2,871
Cash (note 7)	47,514	42,408
Amounts receivable (note 8)	45,577	69,739
Other	2,184	2,907
	$ 207,256	$ 241,795
LIABILITIES		
Bank advances (note 9)	$ 674	$ 227
Loans payable (note 10)	63,687	97,684
Income taxes payable	1,608	—
Accounts payable and accrued liabilities	30,678	53,055
Deposits on sales	1,294	2,622
Future income taxes (notes 2 and 11)	28,105	23,533
	126,046	177,121
SHAREHOLDERS' EQUITY		
Capital stock (note 12)	37,269	37,269
Contributed surplus	374	374
Retained earnings	43,567	27,031
	81,210	64,674
	$ 207,256	$ 241,795

See accompanying notes

Approved by the Board

Director Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Year ended September 30 (in thousands of dollars, except per share amounts)	2002	2001
REVENUE		
Real estate sales		
Land	$ 27,767	$ 91,254
Housing	19,630	22,540
	47,397	113,794
Rental	18,393	17,103
Interest and other income	6,436	3,780
Recovery of prior year provision for secured receivable	—	1,300
	72,226	135,977
EXPENSES		
Real estate cost of sales		
Land	12,992	69,916
Housing	18,051	22,116
	31,043	92,032
Rental operating expenses	4,794	4,496
Financing	6,762	9,396
General and administrative	4,415	3,970
Amortization	1,333	1,210
	48,347	111,104
Earnings before income taxes	23,879	24,873
Provision for income taxes (note 11)	7,343	9,099
Net earnings for the year	16,536	15,774
Retained earnings, beginning of the year		
As previously reported	27,031	7,057
Retroactive adjustment for future income taxes (note 2)	—	4,200
	27,031	11,257
Retained earnings, end of the year	$ 43,567	$ 27,031
Net earnings per share	$ 0.77	$ 0.74

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended September 30 (in thousands of dollars)	2002	2001
Cash provided by (used in)		
OPERATING ACTIVITIES		
Net earnings for the year	$ 16,536	$ 15,774
Add (deduct) non-cash items		
Future income taxes	4,572	8,700
Amortization	1,333	1,210
Recovery of prior year provision for secured receivable	—	(650)
Other	(86)	275
Costs recovered through sales of real estate	31,043	92,032
Expenditures on housing under development and land	(31,329)	(33,027)
Repayment of loans payable on land and housing under development	(5,837)	(7,426)
Repayment of mortgage loans on land held for future development	—	(99)
Debenture interest expense (paid) not paid	(20,506)	3,798
Changes in non-cash operating balances		
Amounts receivable	24,162	(44,484)
Accounts payable and accrued liabilities	(2,954)	3,719
Deposits on sales	(1,328)	(862)
Income taxes payable	1,608	—
Other	448	(1,097)
	17,662	37,863
INVESTING ACTIVITIES		
Expenditures on		
Income-producing properties	(2,426)	(5,703)
Land held for investment	(145)	(152)
Property under development	—	(794)
Proceeds of sale of income-producing property	—	355
Restricted cash	(1,640)	1,106
	(4,211)	(5,188)
FINANCING ACTIVITIES		
Mortgage loans on income-producing properties		
Proceeds	9,100	—
Repayments	(2,187)	(2,783)
Bank advances		
Proceeds	447	—
Repayments	—	(7,202)
Repayment of debenture	(17,345)	—
	(9,985)	(9,985)
Increase in cash and cash equivalents during the year	3,466	22,690
Cash and cash equivalents, beginning of the year	35,929	13,239
Cash and cash equivalents, end of the year	$ 39,395	$ 35,929
SUPPLEMENTARY INFORMATION		
Interest paid	$ 27,268	$ 5,598
Income taxes paid	1,163	399

See accompanying notes

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the company are in accordance with Canadian generally accepted accounting principles appropriate for the real estate industry. Outlined below are those policies considered particularly significant.

Principles of Consolidation

The consolidated financial statements include the accounts of the company and its subsidiaries, together with the company's proportionate share of the assets, liabilities, revenue and expenses of operating partnerships, joint ventures and co-tenancies.

Income-producing Properties and Amortization

Income-producing properties are carried at the lower of cost, less accumulated amortization, and net recoverable amount.

Amortization of buildings is provided for on the sinking fund method in annual amounts increasing at the rate of 5% compounded semi-annually, which is designed to fully amortize the costs of the buildings over their estimated useful lives as follows:

Industrial buildings – 35 years
Commercial buildings – 40 to 50 years

Amortization of equipment is provided at 20% on a diminishing balance basis.

Properties Under Development

Properties under development are carried at the lower of cost and net recoverable amount.

Land and Housing Under Development and Land Held for Future Development

Land held for resale and housing under development are carried at the lower of cost and net realizable value. Net realizable value represents the amount of estimated net sales proceeds, taking into account management's assumptions and projections for the development of the property and market conditions.

Land held for investment purposes is carried at the lower of cost and net recoverable amount.

Capitalization of Costs

The company capitalizes certain costs applicable to properties under development, housing under construction and land. These costs include costs incurred during the development period, such as specific interest, realty taxes and that portion of general and administrative expenses considered applicable. For land projects, the development period is considered to have ended when the project is available for sale or lease.

Income Recognition

Rental expenses, net of revenues, are capitalized to building costs until a satisfactory level of occupancy is attained. This level is generally determined by a break-even point in cash flow earnings subject to a reasonable maximum period of time. At that time, rental income or loss is recognized in the consolidated statements of earnings and retained earnings.

Land sales under agreements of purchase and sale are recognized as income once all material conditions have been fulfilled and the company has received a down payment that is appropriate in the circumstances having regard to the financial resources of the purchaser. Land sales are reported net of the imputed discounts arising from interest-free periods granted on balances due under agreements of purchase and sale.

Housing sales are recognized at the time of closing.

Costing and Land Sales

Costs are allocated to the saleable acreage of each project or subdivision as follows:

a) undeveloped land cost is pro-rated on an acreage basis to each phase of a subdivision. For commercial and industrial projects, costs are then allocated on a net acreage basis; and

b) servicing costs are allocated to individual lots on a front footage basis in each phase of a subdivision under development and on a net acreage basis for commercial and industrial projects.

Income Taxes

The company uses the liability method of tax allocation for accounting for income taxes. Under the liability method of tax allocation, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured by using the enacted or substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates.

2. ACCOUNTING CHANGE

The company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. These standards were adopted retroactively, without restatement, on October 1, 2000.

Under the new accounting policy for income taxes, future income tax assets and liabilities are determined based on differences between the carrying amounts and tax bases of assets and liabilities, measured using the liability method, by applying the tax rates and laws that will be in effect when the differences are expected to reverse. Previously, deferred income taxes reflected the tax effect of revenue and expense items reported for accounting purposes in periods different than for tax purposes and measured at the tax rate in effect in the year the difference originated. The cumulative effect of adopting the standard of $4,200 is reported separately in the statements of earnings and retained earnings as a retroactive adjustment to retained earnings for the year ended September 30, 2001.

3. INCOME-PRODUCING PROPERTIES

	2002	2001
Land	$ 21,345	$ 20,906
Buildings and equipment	70,651	67,399
	91,996	88,305
Less accumulated amortization	12,403	11,095
	$ 79,593	$ 77,210

4. PROPERTY UNDER DEVELOPMENT

	2002	2001
Land costs	$ —	$ 471
Construction costs	—	794
	$ —	$ 1,265

5. LAND AND HOUSING UNDER DEVELOPMENT

	2002	2001
Land		
Acquisition costs	$ 8,273	$ 12,305
Carrying costs	5,947	9,780
Development and servicing costs	5,089	10,273
	19,309	32,358
Housing under construction	10,376	13,037
	$ 29,685	$ 45,395

Cost of sales adjustments of $3,886 (2001 - $1,108) arising from revisions to the estimated costs to complete land sold in prior years have been reflected as a reduction of real estate cost of sales in the year ended September 30, 2002.

6. LAND HELD FOR FUTURE DEVELOPMENT

	2002	2001
Acquisition costs	$ 2,118	$ 2,276
Carrying costs	469	487
Development and servicing costs	116	108
	$ 2,703	$ 2,871

7. CASH

	2002	2001
Cash and cash equivalents	$ 39,395	$ 35,929
Restricted cash	8,119	6,479
	$ 47,514	$ 42,408

Cash and cash equivalents include unrestricted cash and term deposits with a maturity of three months or less from the date of acquisition. Restricted cash includes deposits required to secure outstanding guarantees and letters of credit and amounts required to fund costs to complete projects sold.

8. AMOUNTS RECEIVABLE

	2002	2001
Receivables under agreements of purchase and sale	$ 44,547	$ 67,941
Mortgages and loans receivable	603	1,187
Other	427	611
	$ 45,577	$ 69,739

Included in receivables under agreements of purchase and sale is $16,573 due from five parties in 2003 relating to sales in one development, $21,837 due from three parties in 2004 relating to sales in two different developments, $798 due from one party in 2005 relating to sales in one development and $1,657 due from one party in 2006 relating to sales in another development. The receivables under agreements of purchase and sale generally bear no interest for a portion of their period and are due 2 years from the adjustment (closing) date as defined in the individual agreements, or upon transfer of land title.

In accordance with the company's accounting policy, $44,547 of the receivables under agreements of purchase and sale is shown net of a $2,145 discount at September 30, 2002 (2001 - $67,214 and $5,525, respectively) to yield a 7% per annum return.

Included in receivables under agreements of purchase and sale in 2002 is $5,961 (2001 - $6,588) due from a joint venturer relating to a land sale in 2001.

The due dates of the receivables, as defined in the individual agreements, are as follows:

Years ending September 30	
2003	18,294
2004	24,380
2005	798
2006	2,105
	$ 45,577

9. BANK ADVANCES

Bank advances in 2002 consist of the company's share of joint venture operating loans bearing interest at prime plus 0.5%.

Certain of the company's borrowing lines of credit expired during the year and, as the company has sufficient cash resources to conduct its business, were not renewed. On January 15, 2003, the company signed an agreement with its banker for letter of credit facilities relating to its land development activities. Under the arrangement, the bank no longer requires the $150,000 demand debenture which provided fixed charges against the company's properties. As security for the company's letter of credit facilities, the bank will hold a general security agreement, a registered general assignment of book debts and a specific assignment of certain amounts due under agreements of purchase and sale.

10. LOANS PAYABLE

	2002	2001
Mortgage loans	$ 63,687	$ 59,808
Debenture	—	37,876
	$ 63,687	$ 97,684

The mortgage loans, other than on the housing under development which generally are interest-free for certain periods, bear interest at a year-end weighted average rate of 8.54% (2001 - 9.26%) per annum. The loans are secured as follows:

	2002	2001
Income-producing properties	$ 60,622	$ 53,709
Land and housing under development	3,065	5,662
Land held for future development	—	437
	$ 63,687	$ 59,808

Principal repayments of the mortgage loans are due as follows:

Years ending September 30	
2003	$ 6,958
2004	5,662
2005	23,225
2006	2,386
2007	4,099
Thereafter	21,357
	$ 63,687

Mortgage loans payable secured by housing under development and land include $3,065 (2001 - $4,806) owing to companies partly owned by certain shareholders of the company and $NIL (2001 - $681) owing to a joint venturer partly owned by a shareholder.

The company had issued a demand debenture for $40,000 as security for a loan in the principal amount of $16,811 owing to a company controlled by a director, as trustee for a lending syndicate which included certain shareholders. Interest on this loan was charged at prime plus 2% until June 30, 1999. Effective July 1, 1999, the rate was increased to prime plus 4% as a result of negotiations with the lender. Effective October 1, 2001, the interest rate was reduced to prime plus 2%. Interest expense for the year ended September 30, 2002 amounted to $1,524 (2001 - $3,845). The debenture was repaid in full on June 14, 2002.

11. INCOME TAXES

a) Significant components of the income tax provision as at September 30 are as follows:

	2002	2001
Current	$ 2,771	$ 399
Future	4,572	8,700
	$ 7,343	$ 9,099

b) The income tax provision differs from the amount computed by applying the average statutory Canadian federal and provincial income tax rates to the earnings before income taxes. These differences are as follows:

	2002	2001
Expected income tax at 39% (2001 - 42%)	$ 9,222	$ 10,477
Large corporations tax	233	399
Benefit resulting from reduction in income tax rates	(602)	(1,777)
Adjustments to other reserves and provisions	(1,058)	—
Other	(452)	—
	$ 7,343	$ 9,099

c) Future income taxes have been provided on temporary differences consisting of the following:

	2002	2001
Capital cost allowance in excess of accounting amortization booked	$ 3,863	$ 3,740
Costs capitalized for accounting, deducted for income tax	3,848	5,128
Mortgage reserves and discounts on amounts receivable	4,358	4,260
Losses carried forward	—	(6,689)
Other reserves and provisions	16,036	17,094
	$ 28,105	$ 23,533

12. CAPITAL STOCK

Authorized shares:

Class A, non-voting, without par value	– Unlimited
Class B, voting, without par value	– Unlimited
First preference shares, non-voting, without par value	– 1,500,000

Class A shares, into which Class B shares may be converted, are entitled to non-cumulative annual preferential cash dividends of $2.52 per share. After Class B shareholders have received a dividend of an equal amount, any subsequent dividend payments are divided equally between both classes of shares. Class A shares may not be converted into Class B shares. Class A shares rank prior to Class B shares with respect to the return of capital paid up thereon in the event of a dissolution, liquidation or windup of the company.

An analysis of changes in issued capital stock is as follows:

	Number of shares		Amount		
	Class A	Class B	Class A	Class B	Total
Balance, September 30, 2000	19,248,395	2,120,047	$ 33,147	$ 4,122	$ 37,269
Conversion of Class B shares into Class A shares	4,480	(4,480)	7	(7)	—
Balance, September 30, 2001	19,252,875	2,115,567	33,154	4,115	37,269
Conversion of Class B shares into Class A shares	4,309	(4,309)	7	(7)	—
Balance, September 30, 2002	19,257,184	2,111,258	$ 33,161	$ 4,108	$ 37,269

On September 11, 2002, the Toronto Stock Exchange accepted the company's proposal to make a normal course issuer bid to commence on September 17, 2002 and expire by September 16, 2003. Under this bid, the company is permitted to purchase, on the open market, up to 950,000 Class A shares and up to 100,000 Class B shares. The company will cancel all shares acquired under the bid. No shares were purchased during the year ended September 30, 2002. Subsequent to the year- end, 26,900 Class A and 1,000 Class B shares were repurchased at a cost of $70 and $3, respectively.

13. COMMITMENTS AND CONTINGENCIES

The company has letter of credit facilities totalling $23,740, of which $19,571 has been utilized in support of its obligation to complete servicing requirements in connection with various land development projects. A substantial portion of the costs for which the letters of credit have been provided as security have been paid or accrued.

The company is contingently liable for its associates' share of the obligations in operating partnerships, joint venture and co-tenancy developments. In each case, assets of the partnership, joint venture or co-tenancy are available and adequate to satisfy such obligations.

14. CAPITALIZED COSTS

The following costs were capitalized during the year:

	2002	2001
Interest	$ —	$ 156
Realty taxes	391	498
General and administrative	564	854
	$ 955	$ 1,508

These amounts were allocated as follows:

	2002	2001
Land and housing under development	$ 950	$ 1,443
Land held for future development	5	57
Property under development	—	8
	$ 955	$ 1,508

15. PARTNERSHIPS, JOINT VENTURES AND CO-TENANCIES

The company's proportionate share of operating partnership, joint venture and co-tenancy operations is reflected in these consolidated financial statements as follows:

	2002	2001
Assets	$ 34,577	$ 48,124
Liabilities	13,432	16,408
	$ 21,145	$ 31,716
Revenue	$ 25,513	$ 42,098
Expenses	20,623	36,010
Income	$ 4,890	$ 6,088
Cash provided by (used in)		
Operating activities	$ 1,410	$ (1,743)
Investing activities	(2,517)	5,079
Financing activities	447	(712)

16. RELATED PARTY TRANSACTIONS

In the normal course of business, the company sells property and provides management services to certain partnerships, joint ventures and co-tenancies in which it has an interest. In addition, some lots within the housing joint ventures were acquired from companies partly owned by certain shareholders. Certain shareholders and directors are also participants in some of the land and housing joint ventures. The affairs of the company are managed by two shareholders who are also officers and directors.

Material transactions during the year were as follows:

	2002	2001
Land sales	$ 546	$ 9,053
Land purchases	4,049	4,025
Management fee income	263	490
Management fee expense	2,076	2,145

Additional related party transactions and balances are described in notes 8 and 10.

17. FINANCIAL INSTRUMENTS

The carrying values and estimated fair values of the company's financial instruments at September 30, 2002 and 2001 are set out below:

2002	Carrying Value	Fair Value
Bank advances	$ 674	$ 674
Mortgage loans	63,687	64,597
Debenture	—	—

2001	Carrying Value	Fair Value
Bank advances	$ 227	$ 227
Mortgage loans	59,808	61,676
Debenture	37,876	37,876

The fair value of the bank advances approximates their carrying value because they bear interest at floating rates. The fair value of the mortgage loans was estimated by discounting contractual repayments at current market rates of similar instruments. The fair value of the debenture approximated its carrying value since it was effectively due on demand. The fair values of cash and cash equivalents, restricted cash, amounts receivable, accounts payable and accrued liabilities and deposits on sales approximate their carrying values due to their short-term maturities.

18. SEGMENTED INFORMATION

The company operates in Southern Ontario in the Greater Toronto Area and surrounding communities and has three reportable segments: development land for sale or transfer to the income-producing properties segment, construction and operation of income-producing properties and the construction and sale of residential units. The accounting policies of the segments are the same as those described in note 1. The results of operations and the amounts invested in these segments are as follows:

Income (Expenses)

	Revenue 2002	Revenue 2001	Earnings 2002	Earnings 2001
Land development	$ 32,872	$ 95,075	$ 19,880	$ 25,159
Income-producing properties	18,393	17,103	7,124	6,084
Residential construction	19,718	22,610	1,667	494
Other	1,243	1,189	1,243	1,189
	$ 72,226	$ 135,977	29,914	32,926
Unallocated Amounts				
Interest			(1,602)	(4,067)
General and administrative expense			(4,414)	(3,970)
Amortization			(19)	(16)
Income taxes			(7,343)	(9,099)
Net earnings for the year			$ 16,536	$ 15,774
Identifiable Assets				
Land development			$ 109,163	$ 142,808
Income-producing properties			83,590	82,956
Residential construction			14,439	15,850
			207,192	241,614
Unallocated corporate assets			64	181
Total company assets			$ 207,256	$ 241,795

Capital expenditures in the income-producing properties segment during the year ended September 30, 2002 amounted to $2,426 (2001 - $6,497).

Land revenue for 2002 excludes $NIL (2001 - $1,082) of land transferred to the income-producing properties segment.

Earnings of the income-producing properties segment for the year ended September 30, 2002 are net of depreciation of $1,315 (2001 - $1,194) and interest expense of $5,160 (2001 - $5,329).

Included in the land development segment's revenue is sales of $9,663 to one purchaser and $5,031 to another purchaser which in each case accounted for more than 10% of that segment's revenue in 2002. In 2001, one purchaser accounted for $17,681 of such sales and another purchaser accounted for $25,027.

CORPORATE DIRECTORY

DIRECTORS

Rudolph Bratty
Solicitor and Partner
Bratty and Partners

John H. Craig
Solicitor and Partner
Cassels Brock & Blackwell
Barristers and Solicitors

John H. Daniels
President
The Daniels Group Inc.

Emilio J. Gambin
President
Gammond Investments Limited

Stanley Goldfarb
President
Logpin Investments Limited

Marco Muzzo
Chief Executive Officer
Muzzo Brothers Group Inc.

H. Clifford Hatch, Jr.
President
Cliffco Investments Limited

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Marco Muzzo
Chairman of the Board

Stanley Goldfarb
President & Treasurer

John H. Craig
Secretary

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Symbols: CXA.A and CXA.B

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Frank Fiscalini
Property Manager

Ivano Manias
Planner

Lou Pompili
Engineering
Leasing and Property Management

Arnold J. Resnick
Controller

AUDITORS

PricewaterhouseCoopers LLP

TRANSFER AGENT

Computershare Trust Company
of Canada

SOLICITORS

Cassels Brock & Blackwell LLP

ANNUAL MEETING

Consolidated HCI Holdings Corporation Annual Meeting will be held on Friday, March 21, 2003
at 11:00 A.M. in the Blackcreek Room, Travelodge Hotel (formerly Triumph Howard Johnson Plaza)
2737 Keele Street, Toronto, Ontario